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Ministry of
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Ontario

the basic consumer guide to insurance

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Ontario

At some point in their lives, most people will consider buying insurance on their life, home, car or health. Insurance is a means of providing financial compensation for loss. By paying a fee (premium) now, you insure that future events will not cause great financial hardship.

This booklet outlines some of the things you should consider before accepting the policy. Insurance terminology can be baffling to the layman but it is worth your while to make the effort to understand exactly what type of protection you are buying.

Further information may be obtained from the sources listed in this booklet or from your insurance agent.

Buying an insurance policy

First of all, decide why you need insurance and what amount you require. Then investigate the types of policies available and decide which will best suit your needs. Talk to several agents and compare policies and prices. Before signing an application for a policy, make sure you understand all terms and conditions, including details of coverage, any restrictions, cancellation provisions and procedure for settling claims.

Read the policy carefully. If there is anything you don't understand, ask for an explanation—preferably in writing. Remember that an insurance policy is a legal document.

Life insurance

The purpose of life insurance is to provide your dependents with an income when you die. Life insurance can also serve as a vehicle to accumulate funds for your retirement income, or it can offer other benefits such as forced saving, loans or collateral for loans.

Things you should consider when evaluating your needs include medical, legal and funeral expenses, support and education of your children, income for your spouse, adjustment fund for your spouse (in preparation for employment and/or for further education) and paying off the house mortgage or any other outstanding loans. Decide what needs would exist five, 10, 15 and 20 years from now. Don't forget to take into account any group insurance, savings or investments you may have.

A life insurance policy may be either participating (par) or non-participating (non-par). The participating policies share in the profits of the insurance company and earn dividends during the term of the policy; as a result, they require higher premiums.

There are three main types of life insurance: term, whole life and endowment. Any policy you buy will be a variation of one of these.

Term Insurance provides protection for a limited and specified period of time. If the insured dies within that period, the company will pay the face amount of the policy to the beneficiary. If the insured is alive at the end of the time period, the policy expires and no benefits are payable.

Premiums are based on the age of the insured and the amount of the policy. Premiums are lowest for this type of life insurance.

Most term policies are renewable until the policyholder reaches the age of 65 or 70, when all coverage stops. During a period usually stated in the document, convertible term policies can be changed into whole life policies without the need for a medical examination, to provide coverage after the age at which the term policy would no longer apply.

Group insurance is a form of term insurance offered through employers, unions or associations. It provides protection for your beneficiary if you die while you are insured by the plan. Most plans allow you to convert the policy to a personal one within a specified time after leaving your job or resigning your membership, but the conversion right is restricted if your employer goes out of business or cancels the policy.

Whole life insurance provides protection for the rest of your life and benefits are payable whenever you die. This is also known as "permanent" insurance, as opposed to the temporary protection of term insurance.

Whole life policies accumulate a cash value; the longer the policy is in force, the higher the cash value. The cash value is often nil in the early years because you are also buying insurance coverage.

There are a number of ways this cash value may be used. You may borrow against the cash value, from the insurance company, at a rate of interest specified in the policy; use it as collateral for a loan from another source; cancel your policy and take the cash value as a lump sum or in instalments, or use it to purchase a fully paid-up policy for a smaller amount. Remember that when you borrow against your policy, you are reducing your coverage by the amount of the loan.

Premiums are based on payments spread over an average lifetime. "Straight life" means you pay the same premium throughout your life. "Limited payment life" means you pay a set premium for a specified number of years, after which the policy is completely paid up and coverage remains in force for the rest of your life. In "20-pay life" for example, premiums are paid for 20 years, whereas "paid up at 65" means that premiums are paid until age 65.

Endowment insurance combines life insurance with savings. You pay premiums for a specified period, dur-

ing which the amount of the policy is payable to the beneficiary if you die. If you are alive at the end of this period, the benefits are payable to you. As this type of policy combines protection with savings and provides the highest cash value, it tends to be the most expensive to purchase.

Options

Many options or "riders" to your basic insurance are available at additional cost. The most common are:

- Accidental death benefits—pays more than the face value of the policy if you die in an accident. "Double indemnity" means the beneficiary receives twice the face value.
- Disability benefits—in one type, you will not have to pay the premiums if you become totally disabled but the policy will remain in force; this is commonly known as 'waiver of premium' benefit. A second type pays a monthly income if you become disabled.
- Guaranteed insurability—gives you the right to buy specified amounts of additional coverage at specified times, without a new medical examination.

Beneficiary designation is one of the most important aspects of life insurance: you must specify to whom your insurance money should be paid, and you should update the name of the beneficiary when circumstances change.

You also decide how you want the proceeds of your life insurance paid. Settlement options include payment in a lump sum, in monthly income, or at a certain date or dates.

Life insurance may also be used to save for your children's education, to defer taxes, to provide retirement income, or to pay estate taxes or the mortgage on your house after your death. Ask your agent about the various ways of accomplishing these aims.

A word of caution

A life insurance policy with savings element, for example an endowment policy, may be registered as an RRSP (Registered Retirement Savings Plan). However, fund accumulation under such an RRSP is slightly different from RRSPs sold by banks or trust companies. If you decide to purchase an RRSP from a life insurance company, make sure you understand the difference. Ask your agent about any expense charges or penalties which may apply if you de-register or fail to continue contributing.

Think twice about cancelling your present life insurance policy and buying a new one. You may be better off changing or converting your existing policy. When you buy a new policy you will have to start over again with any front-end expense charges. The contestable period (usually two years, during which the company is entitled to question the statements made in the policy application), suicide clause (no benefits are payable if the policyholder commits suicide within a specified period) and any other waiting periods will start afresh for the new policy. Here's a good basic rule to follow: never cancel an old policy before the new one takes effect.

If you are replacing an old life policy with cash values, you are entitled to a comparison statement comparing old and new policies. Make certain you get it.

Disability insurance

This type of insurance provides protection if you become disabled through accident or sickness. The considerations in deciding how much coverage you need are much the same as those of life insurance. If you are self-employed or the owner of a small business, you should consider plans which allow you to cover overhead expenses or buy out of a partnership.

The Canada and Quebec Pension Plans, Unemployment Insurance and Worker's Compensation Board all provide some compensation for disability. Group insurance plans or life insurance policies under which you are covered may also provide this type of benefit. OHIP pays most medical bills for Ontario residents. Find out the details and the amount of your present coverage before you assess your needs to buy a personal disability policy.

The amount of disabiliity insurance you may purchase is usually based on your income. Medical requirements are much more strict than for life insurance plans. In evaluating disability insurance plans, check:
- definition of disability—total, partial, recurrence
- when coverage begins, how long it continues
- amount of deductible
- maximum benefits payable
- waiting period before benefits begin
- how long benefits last
- whether benefits from other plans (e.g., worker's compensation) are deducted from benefits payable
- exclusion clauses such as attempted suicide, accidents-of-war, armed forces duty, dangerous sports
- conditions of renewing or cancelling the policy

• possible increase of premiums or reduction of benefits

NOTE: Very low cost disability policies may have many limitations on coverage. A more comprehensive policy may be better suited to your needs.

Property and liability insurance

Property insurance protects you financially against loss or damage to buildings, contents and personal belongings.

Personal liability insurance protects you against damage that you accidentally cause to the property of others, injuries sustained by other people on your property or caused accidentally by you or by members of your family.

Different types of insurance on your house, condominium, apartment or cottage are usually packaged together in a "homeowner's" or "tenant's" policy. Package policies are generally cheaper than buying separate policies for fire, theft and other risks.

The amount of insurance you should carry on your home is determined by the cost of rebuilding your house, not the sale value of the property. This figure may be determined by appraisal or by the building costs in your area. With changing house values, coverage should be reviewed annually.

To determine the amount of coverage required on contents and personal belongings, add up the replacement cost, room by room, of everything you own. Most insurance companies will provide inventory check lists. List items and estimated value on the form and keep it in your safety deposit box or other safe place away from your home in case of a future claim.

Consult your insurance agent about whether separate riders to your policy are required for valuable items such as jewellery, furs, antiques, collections, musical instruments or the boat and motor at your cottage. Photographs and appraisals of such items are useful in settling claims. Insurance on contents usually applies to the depreciated value and will probably include a deductible clause (amount of loss for which you are responsible). You may, however, want to request a special policy covering the replacement cost of your household contents or some specific items.

Major risks covered by your home insurance usually include fire, smoke damage, lightning, explosion, falling objects, impact by vehicle (car or aircraft), riot, water escape, windstorm, hail, vandalism and theft. Certain occurrences, such as floods or earthquakes, may not be covered. Make sure you understand the extent of your coverage, any exclusion clauses and conditions which may invalidate your coverage. For example, if you are absent from your home for any length of time, your insurance may not apply unless your property is checked daily.

Personal liability insurance, usually included in package policies, provides protection if you or a member of your family accidentally cause property damage, death or injury to others. This provision also pays legal fees if you are sued for negligence. The amount of personal liability insurance you carry should reflect your financial worth, activity and your property. If you own a swimming pool, for instance, you should carry substantially more personal liability insurance.

When buying insurance on an apartment, condominium or townhouse, determine exactly which areas are your responsibility and which are covered by the landlord's or corporation's insurance. Broadloom, inner and outer walls of the unit, balconies and patios are areas to check.

If your home or apartment burned down today, where would you live? Does your policy include a provision for interim accommodation? For how long? Under what conditions? Now is the time to find out these answers.

Motor vehicle insurance

Insurance for your car, truck or motorcycle has two purposes: to provide compensation for loss or damage to the vehicle and to pay for damage or injury resulting from accidents for which you are responsible. Under Ontario's Compulsory Automobile Insurance Act, each motor vehicle registered in Ontario must carry a minimum of $200,000 third party liability insurance, as well as accident benefits and uninsured motorist coverage.

The main factors influencing the cost of vehicle insurance include type and frequency of use (pleasure or business), driving and accident record of the insured, type of vehicle, as well as the number and characteristics of occasional drivers.

There are three main types of coverages for motor vehicle insurance.

Third party liability insurance provides two basic coverages: **bodily injury**, which pays claims resulting from death, injury or sickness of others as a result of an accident caused by you; and **property damage**, which pays claims arising from damage to the property of others when you are at fault.

Protection is provided for the owner of the vehicle and for others driving it with the owner's consent. Make sure you have enough liability insurance. Damages must be paid by the driver and/or owner at fault, and as courts are awarding ever increasing amounts to accident victims, such damages could take all of your earnings for the rest of your life.

Collision insurance pays for damages to your car if you are involved in an accident, no matter who is at fault. Because repairs are so costly, it is recommended for new and expensive cars but less necessary for older vehicles. Cost is based on the type of car and the deductible (e.g. the initial amount you are prepared to pay).

Comprehensive insurance pays for loss of, or damage to, your vehicle from perils which may also include vandalism, fire, theft and certain weather conditions. (Make sure you know what the exclusions are.) There is usually a deductible clause.

Regulation of the industry

In Ontario, the insurance industry is regulated by the superintendent of insurance of the Ontario Ministry of Consumer and Commercial Relations. The main duties of the superintendent are:

- to establish that an insurance company is solvent and remains solvent in the future;
- to see that the company follows proper business practices and maintains ethical standards;
- to maintain the rights of consumers by reviewing disputes over claims and responding to consumer's complaints.

For more information on insurance or to lodge a complaint against an insurance company, contact:
Office of the Superintendent of Insurance
6th Floor
555 Yonge St.
Toronto, Ontario M7A 2H6

For Life and Disability Insurance, contact:
Canadian Life and Health Insurance Association
Suite 2500
20 Queen St. E.
Toronto, Ontario M5H 3S2
toll-free 1-800-268-8099

For Other Insurance, contact:
Insurance Bureau of Canada
13th Floor
181 University Avenue
Toronto, Ontario M5H 3M7
(416) 362-2031

Be an informed consumer

The Ontario Ministry of Consumer and Commercial Relations has published a number of other booklets covering a wide range of consumer topics.

Copies of these publications may be picked up in person at the Consumer Information Centre in Toronto (Telephone 416-963-1111; toll free 1-800-268-1142, TTY/TDD 416-963-0808) or from Consumer Services Bureaus in Hamilton, London, Ottawa, Peterborough, Sudbury, Thunder Bay, Toronto and Windsor.

For direct mail requests, write to:
Consumer Information Centre
Ontario Ministry of Consumer and
Commercial Relations
555 Yonge St., Main floor
Toronto, Ont. M7A 2H6

Consumer Services Bureaus

Ontario Government
Building
5th floor
119 King St. W.
P.O. Box 2112
Hamilton, Ontario
L8N 3Z9
(416) 521-7554

New Court House
Main floor
80 Dundas St.
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